



11<sup>th</sup> November 2014

Mr. Jonathan Faull  
Director General  
Department of Internal Market and Services  
European Commission  
SPA2 – Pavillon  
Rue de Spa 2  
1000 Brussels  
Belgium

Copies to:

Mr. Ugo Bassi, Director for Capital and Companies  
Mr. Didier Millerot, Head of unit 'Accounting – Financial Reporting'

### **Re Consultation on the impact of IFRS in the EU**

Dear Mr. Faull,

The Financial Reporting and Analysis Committee (FRAC) of the CFA Society of the UK (CFA UK) is grateful for the opportunity to provide feedback on our experience of the impact of IFRS in the European Union through your online questionnaire. With this letter we would like to highlight some of the key aspects of the IFRS standards and their endorsement and use addressed in our detailed online response (reference fa52e71c-a664-456c-97ca-81535434e5cb).

CFA UK represents more than 10,000 investment professionals working across the financial sector. For advocacy purposes in the field of financial reporting, these members are represented by the FRAC.

Overall, we believe that the transition from local GAAP to IFRS-based reporting has benefitted users of financial statements to a significant extent. In our opinion, there has been a marked improvement in the quality and transparency of reporting by European companies since the adoption of IFRS. Disclosures by many European companies have improved significantly, versus the old local GAAP requirements, and there is much more consistency in reporting by companies from different EU countries.

Making financial statements comparable across companies based in different countries is extremely important for investors. It plays a vital role in investor confidence in corporate reporting and capital markets, which promotes investment and reinforces the free movement of capital within the EU. However, there are still some differences regarding the level and depth of financial reporting across EU countries, particularly among smaller companies. We believe the Financial Reporting Council and Financial Conduct Authority are making a good job of IFRS enforcement in the UK but enforcers in some other countries are less active. We welcome the efforts of ESMA to improve consistent enforcement of standards, working with national enforcers.

With respect to the endorsement criteria for new standards, we believe the key criteria for accounting information is that it should present a true and fair view and be decision useful. If these criteria are met it should follow that the accounting standard is favourable to the



“public good”. We do not believe additional criteria regarding financial stability or economic development are necessary as these too should follow from accounting standards designed to depict the underlying economic reality. As such we believe that the “public good” is redundant as an endorsement criterion for IFRS adoption by the EC and should be removed. The existence of the “public good” criterion potentially undermines the political independence of accounting standards setting, in our view.

We do not believe carve-outs from IFRS are in the public interest for Europe as they complicate the comparison of company financials from around the world and jeopardise the coherence of the standards. Most significantly, it risks undermining investor confidence in the financial reporting of European companies. The information provided by those EU banks that take advantage of the IAS 39 carve-out is not consistent with those banks that report under full IFRS. This makes the banks that use a carve-out look like they are trying to achieve a particular accounting outcome, which raises investor scepticism.

We thank you for considering our views and remain at your disposal if you would like to discuss the issues we have raised in more detail.

Yours sincerely,



Marietta Miemietz  
Co-chair, Financial Reporting and Analysis Committee  
CFA Society of the UK



Paul Lee  
Co-chair, Financial Reporting and Analysis Committee  
CFA Society of the UK



Will Goodhart,  
Chief Executive  
CFA Society of the UK



### About CFA UK and CFA Institute

The CFA Society of the UK (CFA UK) represents the interests of more than 10,000 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members. Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

CFA Institute is the global association for investment professionals. It administers the CFA and CIPM curriculum and exam programs worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry. CFA Institute has more than 100,000 members in 140 countries, of which more than 90,000 hold the Chartered Financial Analyst (CFA) designation.